

Message Text

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ORIGIN EB-07

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COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 EPG-02 AID-05 SS-15
STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02
FEAE-00 OMB-01 AF-10 ARA-06 EA-07 EUR-12 OIC-02
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TAGS:ETRD, EFIN, GATT, PK

SUBJECT: BOP CONSULTATION WITH PAKISTAN

SUMMARY: PAKISTAN IS ONE OF FIVE COUNTRIES WHICH WILL BE
CONSULTING WITH THE GATT BALANCE OF PAYMENTS (BOP) COMMIT-
TEE THIS SPRING UNDER THE SIMPLIFIED PROCEDURES OF ARTICLE
XVIII. PAKISTAN CARRIES ON A SIGNIFICANT AMOUNT OF TRADE
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AND MAINTAINS EXTENSIVE RESTRICTIONS ON IMPORTS. OF THE
FIVE COUNTRIES CONSULTING UNDER ARTICLE XVIII, PAKISTAN
HAS GONE THE LONGEST SINCE ITS LAST FULL CONSULTATION.
THAT CONSULTATION OCCURRED IN NOVEMBER OF 1969, AND HAS
BEEN FOLLOWED BY EXTENSIVE CHANGES IN PAKISTAN'S IMPORT
REGIME, AND BY INCREASES IN PAKISTAN'S EXTERNAL INDEBTED-
NESS. UNDER THESE CIRCUMSTANCES, THE US REP SHOULD RE-

QUEST A FULL CONSULTATION WITH PAKISTAN, TO BE HELD THIS FALL IN GENEVA. END SUMMARY.

1. BACKGROUND: A FULL GATT BALANCE OF PAYMENTS CONSULTATION WITH PAKISTAN TOOK PLACE IN NOVEMBER OF 1969. SINCE THEN, PAKISTAN HAS CONSULTED UNDER SIMPLIFIED (MINI-BOP) PROCEDURES IN 1973 AND 1975.

2. IN 1969, THE GATT RECOMMENDED THAT PAKISTAN SIMPLIFY AND LIBERALIZE ITS IMPORT POLICY AND EXCHANGE RATE SYSTEM, INTRODUCE COMPETITION IN ITEMS SUBJECT TO BILATERAL TRADE AGREEMENTS AND REDUCE BARTER TRADE. PAKISTAN HAS, IN FACT, TAKEN IMPORTANT STEPS IN THE DIRECTIONS INDICATED. IN 1972 AN EXTENSIVE OVERHAUL OF THE SYSTEM RESULTED IN MUCH SIMPLIFIED IMPORT LICENSING PROCEDURES, AND THE IMPORT LIST HAS SINCE BECOME PROGRESSIVELY MORE LIBERAL. ALSO, A UNITARY--AND MORE REALISTIC--EXCHANGE RATE WAS INTRODUCED.

3. NEVERTHELESS, PAKISTAN MAINTAINS A HIGH LEVEL OF IMPORT RESTRICTIONS AND FACES A SERIOUS--AND DETERIORATING --DEBT SERVICE POSITION, MOST RECENTLY BROUGHT OUT IN A REQUEST FOR A STANDBY FROM THE IMF.

4. IN FY 1975/76 (ENDING JUNE 30), PAKISTAN'S GDP GREW AT A REAL RATE OF 4.4 WHILE THE INFLATION RATE WAS CUT BY MORE THAN HALF, TO 11.5 . EXPORT EARNINGS ROSE BY 19 , AND A STABLE LEVEL OF IMPORTS ALLOWED AN IMPROVEMENT IN THE PREVIOUS YEAR'S TRADE, CURRENT ACCOUNT AND BASIC LIMITED OFFICIAL USE

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BALANCES. HOWEVER, IN 1976/77, FLOODS AND PESTS, AND A WORLD RECESSION COMBINED WITH OTHER FACTORS TO REDUCE THE GROWTH RATE, HALT EXPORT GROWTH, AND INCREASE IMPORTS-- RESULTING IN PROJECTED TRADE AND CURRENT ACCOUNT DEFICITS OF \$1.4 BILLION, WHICH EXCEED THE 1974/75 FIGURE OF \$1.1 BILLION. THE INVESTMENT RATE ROSE, BUT THE SAVINGS RATE FELL, REQUIRING ADDITIONAL EXTERNAL BORROWING. IN SPITE OF AN OIL DISCOVERY AND THE REOPENING OF THE TARBELA DAM, A SIMILAR TRADE DEFICIT IS NOW BEING PROJECTED FOR 1977/78, WITH A RATIO OF MEDIUM- AND LONG-TERM DEBT SERVICE TO FOREIGN EXCHANGE EARNINGS EXCEEDING 20 . THE RECENT POLITICAL DISTURBANCES ARE EXPECTED TO RESULT IN EVEN MORE SERIOUS PRESSURE ON THE BALANCE OF PAYMENTS.

5. SINCE 1973, PAKISTAN HAS MAINTAINED A SINGLE EXCHANGE RATE, PEGGED TO THE DOLLAR. THIS RELATIONSHIP HAS CAUSED TWO DE FACTO APPRECIATIONS IN THE RUPEE RELATIVE TO OTHER CURRENCIES, WHICH PAKISTAN HAS SOUGHT TO OFFSET BY REDUCTIONS OF EXPORT TAXES AND THE IMPOSITION OF A TEN PERCENT

IMPORT SURCHARGE LAST JULY.

6. THE IMPORT SYSTEM IS FAIRLY SIMPLE, BUT HIGHLY RESTRICTIVE. THERE ARE 407 ITEMS ON A "FREE LIST," WHICH MAY BE IMPORTED WITHOUT RESTRICTION, ALTHOUGH SOME OF THESE ITEMS MAY BE IMPORTED ONLY BY INDUSTRIAL USERS AND SOME (E.G. SOME EDIBLE OILS, SOME RICE, CEMENT, JUTE SACKING AND HESSIAN, AND SODIUM CARBONATE) ONLY BY GOVERNMENT TRADING CORPORATIONS. A "TIED LIST," NOW CONSISTING

OF ONLY 18 ITEMS, REPRESENTS PRODUCTS WHICH MUST BE IMPORTED ONLY THROUGH TIED CREDITS, BARTER ARRANGEMENTS, LOANS OR PL480 FUNDS. (SOME PAYMENTS ARE TIED TO BILATERAL AGREEMENTS AND A THREE-WAY AGREEMENT WITH IRAN AND TURKEY.) THERE ARE A FEW OTHER ITEMS WHICH CAN BE IMPORTED UNDER SPECIAL CIRCUMSTANCES, BY EXPORTERS. ALL OTHER ITEMS ARE PROHIBITED, AND THE GOP IS NOW UNDERTAKING A LIMITED OFFICIAL USE

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PROJECT TO ENUMERATE AND CLASSIFY THOSE PRODUCTS. ALL IMPORTS REQUIRE LICENSES, THOSE OVER A CERTAIN VALUE REQUIRE A FEE, AND SOME HAVE AN UPPER VALUE LIMIT.

7. MANY CHANGES WERE MADE IN THE TRADE REGIME IN THE COURSE OF 1976, INCLUDING THE FOLLOWING:

-- IMPORTS OF JUTE SACKING, JUTE HESSIAN AND SODIUM CARBONATE WERE RESERVED FOR THE TRADING CORPORATION OF PAKISTAN,

-- PREFERENCES ON BRITISH GOODS WERE ELIMINATED,

-- 18 ITEMS (NET) WERE ADDED TO THE FREE LIST, SOME WERE SHIFTED FROM PUBLIC SECTOR IMPORT ONLY TO PRIVATE SECTOR, AND THE MONETARY LIMITS ON SOME WERE INCREASED,

-- ELEVEN ITEMS WERE REMOVED FROM THE TIED LIST,

-- A 10 AD VALOREM SURCHARGE WAS IMPOSED ON APPROXIMATELY ONE HALF OF IMPORTS (BY VALUE), AS A REVENUE MEASURE AND FOR THE PURPOSE OF RESTRAINING NON-DEVELOPMENT IMPORTS,

-- SOME EXPORT DUTIES WERE REDUCED OR SUSPENDED,

-- THE INCOME TAX REDUCTION FOR EXPORT INDUSTRIES WAS INCREASED FROM 25 TO 50, AND THE TAX ON NEW EQUIPMENT WAS MADE DEFERRABLE,

-- IN 1977,

-- A REGISTRATION PROCEDURE AND FEE WERE INTRODUCED
FOR BULK IMPORTS OF CERTAIN EDIBLE OILS,

-- A MARGIN REQUIREMENT ON LETTERS OF CREDIT WAS
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EXTENDED TO ADDITIONAL ITEMS (RAW MATERIALS), AND WAS
EXPLAINED AS HAVING THE PURPOSE OF RESTRAINING IMPORTS.

8. RECOMMENDATION: GIVEN THE SIGNIFICANT CHANGES IN
PAKISTAN'S IMPORT POLICY SINCE 1969, AND THE CONTINUING
SERIOUSNESS OF ITS TRADE AND CURRENT ACCOUNT BALANCE, THE

US REP AT THE GATT BALANCE OF PAYMENTS COMMITTEE SHOULD
REQUEST A FULL CONSULTATION WITH PAKISTAN, TO BE HELD IN
THE FALL. FURTHER, THE MISSION SHOULD CONSULT WITH
OTHER MEMBERS OF THE COMMITTEE, AND WITH THE PERMREP OF
THE GOVERNMENT OF PAKISTAN AS FAR IN ADVANCE OF THE MAY
CONSULTATION DATE AS POSSIBLE. CHRISTOPHER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
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Current Classification: UNCLASSIFIED
Concepts: BALANCE OF PAYMENTS, COMMITTEE MEETINGS, TRADE AGREEMENTS
Control Number: n/a
Copy: SINGLE
Sent Date: 18-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
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